Service Date: May 5, 1995

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Submission of	)	UTILITY DIVISION
Pacific Power & Light Company's	)	
1994 Integrated Electric Least	)	DOCKET NO. 94.4.19
Cost Resource Plan.	)	ORDER NO. 5839

FINAL ORDER

BACKGROUND

1. ARM 38.5.2012 (1) required Pacific Power & Light Company (PP&L or Company) to file its first integrated least cost resource plan (IRP or plan) in Montana by May 15, 1994. PP&L filed its plan, which is referred to as its Third Resource and Market Planning Program or RAMPP-3, on April 15, 1994.

2. On May 12, 1994 the Commission issued a notice informing interested persons that the Company had submitted its plan. The notice required written comments on the Company's plan to be submitted to the PSC by August 15, 1994. Written comments were received from the Montana Department of Natural Resources and Conservation (DNRC) and from the Montana Consumer Counsel (MCC).

3. On October 12, 1994 the Commission employed a consultant to review and summarize the written comments and to analyze PP&L's plan regarding its consistency with the Commission's guidelines (ARM 38.5.2001-2012). The consultant provided her report on February 1, 1995.

DISCUSSION

4. RAMPP-3 is titled *Positioning for Competition and Uncertainty.* The plan consists of the RAMPP-3 Report, which includes a two year action plan, an Executive summary and four technical appendices. PP&L states that the RAMPP-3 title reflects the Company's

resource acquisition goals: to position itself well for an uncertain future that will contain increasing competition[1].

5. PP&L developed 155 different resource plans through the RAMPP-3 process. Plans are developed and evaluated in an professed attempt to balance five planning principles: minimize retail price impact, minimize total resource costs including emissions, provide customers reliable service, improve the efficiency of the existing system and maintain flexibility[2].

6. PP&L identifies four strategic goals: growth, customer service, productivity and cost management, and the environment. The growth goal focuses on return on assets, earnings available for common stock and earning a superior return for shareholders. The customer service goal focuses on holding prices to a competitive level and, on average, keeping prices from rising as fast as the rate of inflation.

7. From the five planning principles and the strategic goals, PP&L establishes four considerations to use in developing action plan items. The Company notes that these considerations may conflict with one another. The four considerations are: reduce long term total resource costs, achieve equity among customers, meet increasing competition in the electric industry and reduce environmental emissions. The Company represents that it based its action

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[1]RAMPP-3 Report, p 1.

[2]RAMPP-3 Report, p. 8.

plan items on management's judgement regarding the impact of demand-side resources and other resource acquisitions on the Company's ability to balance these considerations[3].

8. RAMPP-3 represents a comprehensive and detailed resource planning process. The Commission recognizes and appreciates the analytical effort embodied in the plan. Nevertheless, there are areas in which the plan is inconsistent with the planning process envisioned by the Commission's guidelines. These inconsistencies appear to be a result of management's professed focus on meeting competition and maintaining the Company's position as a low cost producer in contrast to the Commission's goal to minimize the long term societal cost of providing energy services.

9. PP&L's RAMPP-3 is most notably inconsistent with the Commission's guidelines with respect to three issues: demand-side resource acquisition, the connection between resource planning, resource acquisition and transparency, and transmission planning and analysis. Each of these issues is discussed separately below.

[3]RAMPP-3 Report, p. 9.

10. **Demand-side resource acquisition**. To select the amount of demand-side resources to include in the action plan the Company applies a separate financial analysis which is not part of the RAMPP process. Programs must generate an internal rate of return for the Company that is at least 9% and, overall, demand-side resources must not cause a rate impact of more than 1%. The Company claims these criteria are necessary due to increasing competition[4]. One of the factors taken into account when analyzing the cash flows provided by a DSM program is an estimate of the lost revenues associated with the program. This directly conflicts with ARM 38.5.2005 (2) (b) which states:

> "The revenue impacts of decreased sales resulting from the implementation of demand-side resources should not be added to the cost of the resources acquired through such programs."

[4]RAMPP-3 Demand-side Appendix, pp. 135-138.

11. Application of these demand-side resource financial criteria causes the Company to not acquire significant amounts of cost effective conservation in the 1994-1998 time period. The Company evaluated four different demand-side resource acquisition strategies: Low, Medium, Accelerated and High. The Low DSR strategy acquires less DSR and more alternative resources while the High DSR strategy acquires less alternative resources and more DSR. Because of the results of the demand-side resource financial analysis, PP&L's action plan acquires demand-side resources based on the Medium strategy. According to the RAMPP-3 analysis higher demand-side resource acquisition produces lower utility costs as well as lower total resource costs. However, higher rates also are associated with higher DSR, according to RAMPP-3. If the Company were to acquire demand-side resources based on the High strategy the analysis indicates that the net present value of total resource costs would be $154 million less than with the Medium strategy while average prices would be 0.27 mills/kwh higher (0.000274/kwh)[5].

12. PP&L's decision to acquire the Medium level of demand-side resources when a higher level of acquisition would reduce total costs conflicts with ARM 38.5.2001 (1) which requires that total costs be minimized.

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[5]RAMPP-3 Report, p. 120. This reference should not be construed as a Commission endorsement of the accuracy or correctness of the calculation. The Commission simply took the Company's representations at face value.

13. **Resource planning, Resource acquisition and transparency**. ARM 38.5.2001 (2) states that the guidelines represent the Commission's policy regarding proper integrated resource planning and acquisition. (emphasis added) Paragraph (7) of the same rule states that new resources should be acquired only when needed and in a manner consistent with the guidelines. RAMPP-3 violates these rules because the Company's acquisition of the 474 MW Hermiston cogeneration plant and the 422 MW firm capacity purchase from Southern California Edison (SCE) are not evaluated as available resources. DNRC's written comments assert that the Company's failure to provide any analytical support for these acquisitions causes transparency problems because the Commission and interested parties cannot be sure that the acquisitions are in the public interest or in the interest of ratepayers. DNRC, which participates in PacifiCorp's advisory group, asserts that the Company's management has refused to subject the strategic business plan to RAMPP's analytical process, or even to discuss strategic planning activities with the advisory group. The Company clearly faces conflicting decision objectives; on one hand it represents that it wants to keep rates low, on the other hand, Commission guidelines require a least cost resource portfolio. ARM 38.5.2001 (9) addresses this issue by requiring the company to thoroughly document the exercise of its judgement when weighing the importance of conflicting decision objectives. In this way regulators can determine whether the Company's decisions represent an appropriate balance between different objectives. RAMPP-3 fails to satisfy this guideline. As a result these resources may face disallowance in a future rate case. PP&L's acquisitions are reminiscent of the way utilities acquired resources in the late 1970's and early 1980's and is one of the main reasons Commissions nationwide instituted integrated resource planning and acquisition procedures. PacifiCorp's acquisition of the Hermiston and SCE resources outside of the RAMPP process eliminates any prospective review of these resources by the public and the Commission. Unless the Company subjects all potential resources to the analytical and public processes encompassed by integrated resource planning and acquisition, there may be no value derived from the process.

14. Transparency of an IRP is critical to ascertaining the prudence of utility actions on a prospective basis as well as on a retrospective basis. Absent a transparent IRP, determining retrospectively the prudence of utility actions becomes more difficult. The transition from

RAMPP-3 to the Company's action plan is not transparent. DNRC comments that RAMPP-3 does not document the criteria management used, and the weights management placed on the criteria, to develop the action plan[6]. As a result, the Commission cannot be certain that the action plan represents the best course of action.

15. **Including transmission in the planning process.** ARM 38.5.2005 (g) states that utilities should impute into the cost of alternative resources the opportunity cost value of new or existing transmission capacity that would be consumed by the resource if it were acquired. RAMPP-3 does not evaluate the costs of using existing transmission to connect acquired generating resources to the grid. Thus, RAMPP-3 does not satisfy ARM 38.5.2005 (g). The Commission agrees with DNRC that the Company should develop a method that fully incorporates transmission and distribution planning into the RAMPP process, including an evaluation of the benefits and costs of deferring transmission and distribution upgrades through dispersed generation and targeted demand-side resource acquisition[7].

16. Section 69-3-1204 (3), MCA, requires the Commission to provide the utility a list of deficiencies if the Commission finds that the plan does not satisfy the guidelines. The major deficiencies with PP&L's plan are:

1) The plan acquires demand-side resources based, in part, on consideration of lost revenues. This is inconsistent with ARM 38.5.2005.

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[6]Written Comments of the Department of Natural Resources and Conservation, p. 4.

[7]Written comments of the Department of Natural Resources and Conservation, pp. 12-14.

2) The plan purportedly focuses on acquiring resources in a manner which limits rate impacts rather than in a manner which minimizes total costs. This is inconsistent with ARM 38.5.2001.

3) The Company acquires significant resources without subjecting those resources to the full measure of RAMPP-3 analyses. This is inconsistent with ARM 38.5.2001 (7).

4) The plan inadequately documents the criteria and judgement used by management in developing the action plan and inadequately links the transition from RAMPP-3 to the action plan. This is inconsistent with ARM 38.5.2001 (9).

5) The plan inadequately incorporates transmission costs as they relate to evaluating alternative resource options. This is inconsistent with ARM 38.5.2005.

CONCLUSIONS OF LAW

1. Pacific Power & Light Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA.

2. The Montana Public Service Commission may require public utilities providing electric service to file plans for meeting the requirements of its customers (integrated least cost resource plans) in the most cost effective manner consistent with the utility's obligation to serve. '69-3-1204 (1), MCA.

3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans. '69-3-1204 (3), MCA.

4. If integrated least cost resource plans do not meet the requirements of the Commission's guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan. §69-3-1204 (3), MCA.

5. The Montana Public Service Commission has adopted integrated least cost resource planning guidelines. ARM 38.5.2001-2012.

ORDER

1. Pacific Power & Light Company is hereby directed to make every effort to incorporate any suggestions and comments made in this order into its 1996 integrated least cost resource plan. PP&L's 1996 plan will be considered its corrected plan pursuant to §69-3-1204 (3), MCA.

2. This Docket is hereby closed.

DONE IN OPEN SESSION AT Helena, Montana, on this 2nd day of May, 1995, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.